

**MINUTES
REGULAR MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, October 17, 2008
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Michael Townsend, Chair of the ASRS Board, turned the oversight of the meeting over to Mr. Dave Byers, Vice-chair, because Mr. Townsend participated via phone. Mr. Byers called the meeting to order at 8:35 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Michael Townsend, Chair (via teleconference)
Mr. Dave Byers, Vice-chair
Mr. Tom Connelly
Mr. Jaime Gutierrez
Mr. Chris Harris
Dr. Keith Meredith
Mr. Larry Trachtenberg
Mr. Steve Zeman

Absent: Mr. Jim McLaughlin

A quorum was present for the purpose of conducting business.

2. Presentation, Discussion and Appropriate Action Regarding the PRIDE Award for Diversity

Mr. Paul Matson, Director, recognized Ms. Carrie Waith of the Financial Services Division, and Mr. Phil Canada of the Technology Services Division, as the winners of the PRIDE Award for Diversity.

Mr. Larry Trachtenberg joined the meeting at 8:37 a.m.

3. Presentation, Discussion and Appropriate Action Regarding the Presentation of the Government Finance Officers Association (GFOA) Award

Mr. Paul Matson stated that the ASRS received the Government Finance Officers Association (GFOA) Award for excellence in financial reporting for the June 30, 2007, Comprehensive Annual Financial Report (CAFR). Mr. Matson stated that this is the nineteenth year in a row that the ASRS has received the award and thanked Ms. Nancy Bennett, Assistant Director, Financial Services Division, for her efforts in completing the CAFR.

4. Approval of the Minutes of the September 19, 2008 Regular Session of the ASRS Board

Motion: Mr. Steve Zeman moved to approve the minutes of the September 19, 2008, Regular Session of the ASRS Board.

Dr. Keith Meredith seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding the 2009 Legislative Session

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding the 2009 Legislative Session. Ms. Sorensen provided an overview of the 2009 legislative issues:

Transfers: clarification to Charter City transfer statute.

Employer Termination Incentive Programs: removes the requirement that an agreement to retire or terminate be in writing.

Long Term Disability (LTD) Program: clarifies that the Social Security offsets apply to the benefits that both the member and the member's dependent receive, conforms LTD definitions to the DB Plan, and revises the LTD contribution rate calculation.

Service Purchase: allows purchase of time worked for a U.S. Commonwealth, Territory, insular area or overseas possession; extends the military call-up disability program; requires five years of service prior to initiating service purchases.

Return to Work (RTW): dual employment; contribution for RTW; dual membership and RTW in non-ASRS position; miscellaneous RTW provisions

Defined Benefit Plan Design: modifies average monthly salary from 36 to 60 months (new hires only); modifies Rule of 80 to Rule of 85 (new hires only); caps employer refunds at 25% (new hires only); eliminates 80% benefit cap.

Technical and Federal Conforming Changes: Ms. Sorensen stated that language is being developed for potential IRS conforming changes.

Non-ASRS: transfers out.

Mr. Chuck Foy, CWA, ASEA, addressed the Board regarding the 2009 legislative session. Mr. Foy stated that, on behalf of his organizations, the proposed legislation regarding RTW issues is acceptable but some of the Defined Benefit Plan Design changes are not. Mr. Foy also thanked the ASRS for their efforts last legislative session and looks forward to working together again this session.

Mr. Kevin DeMenna, DeMenna and Associates, addressed the Board regarding the RTW issue. Mr. DeMenna stated that he represents a group, Smart Schools, which is opposed to the RTW legislation moving forward as it currently stands. Mr. DeMenna proposed that more time be invested into researching this issue and determining whether or not a problem exists.

Dr. Keith Meredith responded to Mr. DeMenna by stating that staff and Trustees had already determined that there is an issue that needs to be addressed and the matter is now how best to do that. Based on the feedback from the RTW workgroup it seems the proposed legislation is appropriate.

Motion: Mr. Jaime Gutierrez moved to approve the 2009 legislative initiatives presented by staff. The Board supports all initiatives with the exception of the Rule of 85, Average Monthly Salary, and maximum benefit cap provisions, on which the Board shall have a neutral position, but shall provide information to the Legislature on the impact of the initiatives on the Trust. Staff may make all language changes and negotiate as necessary to obtain the most effective and efficient legislative provisions within the construct of today's discussion.

Mr. Steve Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Ms. Sorensen stated that historically the Board has formally opposed any legislation that would allow transfers out of the ASRS.

Motion: Mr. Jaime Gutierrez moved that the Board oppose transfers out of the ASRS for this legislative session.

Dr. Keith Meredith seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the 2008 Procurement Performance Review Conducted by the State Procurement Office (SPO)

Mr. Paul Matson addressed the Board regarding the 2008 Procurement Review conducted by the State Procurement Office (SPO). Mr. Matson stated that the SPO's policy is to review the

procurement operations of each delegated state agency every three years. The SPO performed its first review of the ASRS Procurement Section from December of 2007 through February 2008. The performance review consisted primarily of staff interviews; analysis of policies, procedures, and organizational charts; and review of procurement and contract files.

The report states that the ASRS Procurement Section exhibits best practices leadership in several areas. The report also stated that the findings and recommendations had no financial impact on the ASRS and no corrective action plan was required. The ASRS agrees with the report's recommendations and has begun to implement them.

7. Update on Financial Markets and their Impacts on the ASRS

Mr. Gary Dokes, Chief Investment Officer, and Mr. Terry Dennison, Worldwide Partner, Mercer Consulting, provided an update on financial markets and their impact on the ASRS. Mr. Dokes and Mr. Dennison gave a thorough overview of current financial conditions as well as updates regarding the ASRS portfolio.

Mr. Uwe Fink, Retiree, addressed the Board regarding market conditions. Mr. Fink stated that the ASRS may be able to take advantage of opportunities during this time such as negotiating smaller management fees and by making deals with companies in distress.

8. Director's Report

Mr. Matson stated that there has been discussion regarding a possible IRS regulation change affecting retirement age. The issue has been deferred for two years and will most likely undergo changes during that time.

Mr. Matson also stated that the ASRS is currently re-reviewing current and future budgets. The ASRS may find ways to reduce the budget requests and if so will come to the Board with revised budget requests.

9. Possible Presentation Regarding Board Committee Updates

Mr. Jaime Gutierrez, Chair, External Affairs Committee (EAC), stated that the next EAC meeting will be November 7, 2008.

Mr. Larry Trachtenberg, Chair, Investment Committee (IC), stated that the IC met recently and a series of meetings are being scheduled over the next six weeks.

Mr. Dave Byers, Chair, Operations Committee (OC), stated that the next OC meeting will be November 20, 2008.

10. Board Requests for Agenda Items

There were no requests.

11. Call to the Public

There were no additional requests to speak.

12. The next ASRS Regular Board meeting is scheduled for Friday, November 21, 2008, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

13. Adjournment of the ASRS Board

Mr. Byers adjourned the October 17, 2008 Board meeting at 11:24 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Anne Wilson, Secretary

Date

Paul Matson, Director

Date